YANGAROO Inc.

Unaudited Condensed Interim Financial Statements

For the Three Months Ended March 31, 2013

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of YANGAROO Inc. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

"Gary Moss"	"Michael Galloro"
Gary Moss	Michael Galloro
Chief Executive Officer	Chief Financial Officer

May 27, 2013

YANGAROO Inc.

Unaudited Condensed Interim Statements of Financial Position
As at
(Expressed in Canadian dollars)

	March 31 2013	December 31 2012 (audited)
Assets		
Current		
Cash and cash equivalents	**$ 355,492**	$ 493,427
Accounts receivable	**524,154**	562,470
Prepaid and sundry assets	**141,235**	149,957
	1,020,881	1,205,854
Property and equipment	**114,006**	131,651
	$ 1,134,887	$ 1,337,505
Liabilities		
Current		
Trade and other payables (note 5)	**$ 616,397**	$ 595,637
Deferred revenue	**1,124**	13,095
Finance lease obligation	**17,601**	17,355
	635,122	626,087
Finance lease obligation	**24,498**	27,509
Accrued interest on debentures (note 6)	**387,554**	191,600
Debentures (note 6)	**5,459,427**	5,451,733
	6,506,601	6,296,929
Shareholders' Deficiency		
Share capital (note 7)	**23,828,456**	23,828,456
Warrant capital (note 10)	**1,026,675**	1,060,551
Contributed surplus	**2,698,161**	2,531,803
Deficit	**(32,925,006)**	(32,380,234)
	(5,371,714)	(4,959,424)
	$ 1,134,887	$ 1,337,505

Going concern (note 2(c))
Commitments and contingencies (note 12)

Approved by the Board **“Cliff Hunt”** Director **“Howard Atkinson”** Director

See accompanying notes, which are an integral part of these financial statements

YANGAROO Inc.

Unaudited Condensed Interim Statements of Comprehensive Loss
For the three months ended March 31
(Expressed in Canadian dollars)

	2013	2012
Revenue	**$ 763,103**	$ 546,822
Expenses		
Salaries and consulting	**775,941**	629,680
Marketing and promotion	**72,632**	44,764
General and administrative	**224,777**	153,950
Technology development	**10,981**	27,975
Depreciation of property and equipment	**19,703**	18,180
	1,104,034	874,549
Loss from operations	**(340,931)**	(327,727)
Finance income (expenses)		
Interest income	**286**	544
Interest expense	**(204,127)**	(343,426)
	(203,841)	(342,882)
Net loss and comprehensive loss	**$ (544,772)**	$ (670,609)

Loss per share (note 11)	**$ (0.003)**	$ (0.005)

See accompanying notes, which are an integral part of these financial statements

YANGAROO Inc.

Unaudited Condensed Interim Statements of Changes in Equity
For the three months ended March 31
(Expressed in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Deficit	Total
Balance at December 31, 2011	$23,285,199	$873,455	$1,726,650	$(30,145,182)	$(4,259,878)
Expiry of warrants (note 10)	-	(628,830)	628,830	-	-
Share-based payments (note 9)	-	-	33,852	-	33,852
Loss for the period	-	-	-	(670,609)	(670,609)
Balance at March 31, 2012	$23,285,199	$244,625	$2,389,332	$(30,815,791)	$(4,896,635)
Private placement (notes 7&8)	543,257	741,449	-	-	1,284,706
Issuance of warrants in connection with amendment of debentures (note 6)	-	154,437	-	-	154,437
Expiry of warrants (note 10)	-	(79,960)	79,960	-	-
Share-based payments (note 9)	-	-	62,511	-	62,511
Loss for the period	-	-	-	(1,564,443)	(1,564,443)
Balance at December 31, 2012	$23,828,456	$1,060,551	$2,531,803	$(32,380,234)	$(4,959,424)
Expiry of warrants (note 10)	-	(33,876)	33,876	-	-
Share-based payments (note 9)	-	-	132,482	-	132,482
Loss for the period	-	-	-	(544,772)	(544,772)
Balance at March 31, 2013	**$23,828,456**	**$1,026,675**	**$2,698,161**	**$(32,925,006)**	**$(5,371,714)**

YANGAROO Inc.

Unaudited Condensed Interim Statements of Cash Flows
For the three months ended March 31
(Expressed in Canadian dollars)

	2013	2012
Cash flow from operating activities		
Cash flow used in operating activities:		
Net loss for the period	**$ (544,772)**	$ (670,609)
Items not affecting cash:		
Amortization and depreciation	**19,703**	18,180
Accretion interest	**7,695**	122,691
Share-based payments	**132,482**	33,852
Accrued interest on debentures	**195,954**	220,132
Bad debt expense	**1,097**	-
Changes in non-cash operating working capital:		
Accounts receivable	**37,219**	(102,734)
Prepaid and sundry assets	**8,722**	12,749
Trade and other payables	**20,760**	147,624
Deferred revenue	**(11,971)**	(13,306)
Net cash used in operating activities	**(133,111)**	(231,421)
Cash flow from investing activities		
Acquisition of property and equipment	**(2,059)**	(6,766)
Net cash used in investing activities	**(2,059)**	(6,766)
Cash flow from financing activities		
Payment of finance lease obligation	**(2,765)**	(1,490)
Net cash used in financing activities	**(2,765)**	(1,490)
Net increase / (decrease) in cash and cash equivalents	**(137,935)**	(239,677)
Cash and cash equivalents at January 1	**493,427**	316,717
Cash and cash equivalents at March 31	**$ 355,492**	$ 77,040

Cash interest paid	**$ 514**	$ 641

See accompanying notes, which are an integral part of these financial statements

1. Nature of Operations

YANGAROO Inc. ("Company") is a technology company that is the provider of user friendly and secure business to business distribution of media via the Internet. The Company's patented Digital Media Distribution System (DMDS) is a secure B2B digital media management solution for the entertainment and advertising industries. DMDS is an end to end technology solution that provides a fully integrated work flow based digital distribution and data management solution. DMDS provides audio and video content for music, music videos, and advertising to television, radio, media, retailers, award shows and other authorized recipients with more accountable, effective, and far less costly digital distribution of broadcast quality media via the Internet.

YANGAROO Inc. is a publicly listed company incorporated on July 28, 1999 under the laws of Ontario as Musicrypt.com Inc. and changed to its present name on July 17, 2007. YANGAROO trades on the TSX Venture Exchange (TSX-V) under the symbol YOO and in the U.S. under OTCBB: YOOIF.

The address of the Company's corporate office and principal place of business is 18 Mowat Avenue, Toronto, Ontario M6K 3E8.

2. Basis of Preparation

(a) Basis of compliance

These unaudited condensed interim financial statements were prepared using the same accounting policies and methods as those used in the Company's audited financial statements for the year ended December 31, 2012. These unaudited condensed interim financial statements are in compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting.* Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), have been omitted. The preparation of these unaudited condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's financial statements for the year ended December 31, 2012.

These unaudited condensed interim financial statements have been prepared on a historical cost basis. These statements should be read in conjunction with the audited financial statements for the year ended December 31, 2012. These statements were approved by the Board of Directors on May 27, 2013.

(b) Basis of measurement

The condensed unaudited interim financial statements have been prepared on the historical cost basis except certain financial instruments recorded at fair value through profit and loss. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

2. Basis of Preparation (continued)

(b) Basis of measurement (continued)

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes:

(i) Share-based payments

Share-based payments which include stock options granted to employees, officers and directors and warrants to the extent that they are not measured at the fair value of the services received are based on the fair value at the date of the award. These share-based payments are valued using Black-Scholes option pricing model.

(ii) Impairment of intangible assets

The Company assesses the carrying value of long-lived assets each reporting period to determine whether any indication of impairment exists. The calculation of recoverable amount requires the use of estimates and assumptions such as discount rates and operational performance of the Company.

(iii) Fair value of financial instruments

The Company estimated the fair value of the debentures using an estimated market interest rate derived from comparable companies.

(c) Going concern

The Company will have to raise additional capital to fund operations until such point that revenues from their technology are able to fund operations. If the Company is not able to raise sufficient capital then there is the risk that the Company will not be able to realize the value of its assets and discharge its liabilities.

At March 31, 2013, the Company had working capital of $385,759 and deficit of $32,925,006. To date, the Company has been successful raising capital. Refer to note 6 and note 8.

3. Significant Accounting Policies

The unaudited condensed interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2012. These unaudited condensed financial statements should be read in conjunction with those audited financial statements.

New standards and interpretations not yet adopted

The following accounting standards, amendments and interpretations have been issued but are not yet effective for the Company. Management is currently assessing the impact of the new standards on the Company's accounting policies and financial statement presentation. The standards currently in effect have no impact on the financial statements.

- IFRS 7 *Financial Instruments: Disclosure* was amended by the IASB in December 2011 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013.

- IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- IFRS 10 *Consolidated Financial Statements* was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013.

- IFRS 11 *Joint Arrangements* was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*, and is effective for annual periods beginning on or after January 1, 2013.

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted (continued)

- IFRS 12 *Disclosure of Interests in Other Entities* was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

- IFRS 13 *Fair Value Measurement* was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013.

- IAS 1 *Presentation of Financial Statements* was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

4. Operating Line of Credit

The Company has available an operating line of credit of $20,000. Borrowings under the operating line of credit are due on demand and bear interest at prime plus 2.5% per annum and are secured by a general security agreement. As at March 31, 2013, the Company had a balance outstanding of $Nil (December 31, 2012 - $Nil) on this line of credit.

5. Trade and Other Payables

	March 31 2013	December 31 2012 (audited)
Trade payables	**$ 275,438**	$ 292,275
Non-trade payables	**340,959**	303,362
	$ 616,397	$ 595,637

6. Debentures

On June 23, 2011, the Company issued $2,500,000 principal amount of senior secured 18% non-convertible debentures (the “New Debenture”). As well on June 23 2011, the Company amended its previously issued $818,000 principal amount 12% convertible debentures maturing March 31, 2012 (the “March 2012 Debentures”) and $1,125,000 principal amount convertible debentures maturing July 31, 2012 to reflect the terms of the New Debentures (the “July 2012 Debentures” and together with the March 2012 Debentures, the “Amended Debentures”). $44,911 of interest that accrued on the March 2012 Debentures was added to the principal amount of the amended March 2012 Debentures.

The Company incurred cash financing costs of $374,969, “Bonus” common shares of $946,505 and 2,066,000 warrants with a fair value of $78,281 in connection with the transaction. These costs were allocated between the New Debentures and the previously issued convertible debentures on a pro rata basis resulting in $606,011 of these costs being included in the loss on extinguishment of debentures and $793,744 recorded against the carrying value of the New Debentures.

The New Debentures were being accreted to their face value at a weighted average effective interest rate of 39.72%. The amendment to the debentures was accounted for as an extinguishment of the previously issued convertible debentures as they had yet to mature when the terms were modified on June 23, 2011. Also, the terms between current debentures and the previously issued convertible debentures are considered to be substantially different.

As a result of closing the Private Placement on October 3, 2012 and achieving the minimum threshold of $1,250,000 in financing, the existing debenture holders of the Company have consented to the amendment of their existing debenture agreements. The key amendments include lowering the interest rate from 18% to 14% and extending the repayment date of the existing debentures for an additional three years, all as of the closing date of the Private Placement. Accrued interest recorded up to the date of the amendment of $687,301 was added to the principle of the Amended Debentures. The remaining interest will accrue at 14% throughout the amended term and is payable with the redemption of the principal portion of the debenture.

As part of the amended debenture agreement, the Company was required to issue bonus warrants to the debenture holders as soon as practicable following the execution of the agreement and receipt of approval from the TSX Venture Exchange. The amended agreement also outlined that there was to be approximately 8,900,000 bonus warrants issued to the debenture holders. However, only 3,600,000 warrants were actually approved for issuance. The Company issued 3,600,000 bonus warrants to the holders of the debentures. The amendment to the debentures is accounted for as an extinguishment since the amendments to the debt terms has resulted in a change in value of more than 10%. The difference between the fair value of the debentures and its face amount was $154,437 which was ascribed to the bonus warrants. The debentures are being accreted to its face amount of $5,598,692 using an effective interest rate of 15%.

(Expressed in Canadian dollars)

6. Debentures (continued)

The amended debenture agreement includes a cash sweep whereby the Company is to repay the debenture holders if the cash balance in any fiscal quarter end exceeds certain thresholds. In the event that the cash balance of the Company exceeds $1,000,000, the Company is required to repay 25% of the amount over $1,000,000 up to $250,000. If the cash balance at any quarter end exceeds the $2,000,000, in addition to the $250,000 payable above, the Company is also required to pay to the debenture holders 50% of the amount over $2,000,000. No amount is repayable as of March 31, 2013.

As outlined in the amended debenture agreement, because the TSX Venture Exchange did not approve the bonus warrants, the Company was required to increase the percentage used to estimate the cash sweep over $1,000,000 to be 35% up to a maximum of $350,000.

7. Share Capital

The Company is authorized to issue an unlimited number of common shares.

The following is a summary of changes in common share capital from January 1, 2012 to March 31, 2013:

	Number of shares	Value
Balance at January 1, 2012 and March 31, 2012	131,569,119	$ 23,285,199
Issued for cash on September 7, 2012 [a]	6,875,652	160,050
Issued for cash on October 3, 2012 [b]	18,500,000	268,708
Issued for cash on December 13, 2012 [c]	6,300,000	114,499
Balance at December 31, 2012 and March 31, 2013	**163,244,771**	**$ 23,828,456**

(a) The Company issued 6,875,652 units for gross proceeds of $343,783 by way of a private placement. Each unit consists of one common share at a price of $0.05 per unit and one warrant entitling the holder to purchase one additional common share at $0.10 within 36 months of closing. Share issuance costs of $32,469 have been netted against share capital and $151,264 has been allocated to warrants (notes 8 & 10).

(b) The Company issued 18,500,000 units for gross proceeds of $925,000 by way of a private placement. Each unit consists of one common share at a price of $0.05 per unit and one warrant entitling the holder to purchase one additional common share at $0.10 within 36 months of closing. Share issuance costs of $260,207 have been netted against share capital and $396,085 has been allocated to warrants (notes 8 & 10). Included in share issuance costs is $11,624 which represents the value of 738,000 warrants issued to agents in connection with the private placement.

7. Share Capital (continued)

(c) The Company issued 6,300,000 units for gross proceeds of $315,000 by way of a private placement. Each unit consists of one common share at a price of $0.05 per unit and one warrant entitling the holder to purchase one additional common share at $0.10 within 36 months of closing. Share issuance costs of $22,211 have been netted against share capital and $178,290 has been allocated to warrants (notes 8 & 10). Included in share issuance costs is $4,186 which represents the value of 184,000 warrants issued to agents in connection with the private placement.

8. Share Issuance

On April 17, 2012, the Company announced a Private Placement of a minimum of $1,250,000 and up to a maximum of $2,000,000 in units. Each unit consists of one common share in the capital stock of the Company and one warrant, entitling the subscriber to purchase an additional share at $0.10 per share within 36 months of closing. The Company would issue the units at $0.05 per unit, resulting in the issue of a minimum of 25,000,000 shares and up to a maximum of 40,000,000 shares upon closing, non-diluted.

The Company closed the first phase of the above mentioned Private Placement on September 7, 2012 and the second and final phase on October 3, 2012, raising aggregate gross proceeds of $1,268,783 with 25,375,652 units between Phase 1 and Phase 2, with $375,000 invested by the Company's insiders. Fraser Mackenzie Limited acted as the agent for the Private Placement and received in consideration for its services a cash commission and advisory fees equal to $91,900 and 738,000 warrants entitling them to purchase 738,000 common shares at an exercise price of $0.10 per share, for a period of two years from the closing date of Phase 2. As a result of closing the Private Placement on October 3, 2012 and achieving the minimum threshold of $1,250,000, the existing debenture holders of the Company have consented to the amending of their existing debenture agreements. See note 6.

On December 6, 2012, the Company announced that it had received additional commitments to the above mentioned Private Placement and would issue the units with the same terms. On December 13, 2013, the Company closed the additional Private Placement, raising $315,000 with 6,300,000 units, of which $140,000 was invested by the Company's insiders. Fraser Mackenzie Limited acted as the agent for this additional Private Placement and received in consideration for its services a cash commission of $9,200 and 184,000 warrants entitling them to purchase 184,000 common shares at an exercise price of $0.10 per share, for a period of two years from the closing date of this additional Private Placement.

The Company did not issue any shares during the three months ended March 31, 2013.

(Expressed in Canadian dollars)

9. Share-Based Payments

The Company has an Incentive Stock Option Plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan is 11,804,761. The Plan's option pricing policy is such that the exercise price of options granted under the Stock Option Plan is priced as the greater of the three months weighted average trading price prior to the grant and the closing trading price for the common shares for the last trading day prior to the grant. The term of any option granted shall not exceed the maximum permitted time period under applicable regulations. Unless otherwise provided in the Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. Certain options become exercisable upon achieving predetermined performance milestones and are specific to the respective employee's agreement. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

The Company had issued stock options to acquire common shares as follows:

	Weighted average exercise price	Outstanding options	Vested options	Weighted average remaining life (years)
Balance at January 1, 2012	$ 0.11	11,539,761	3,553,310	3.57
Cancelled	0.10	(3,855,035)		
Balance at March 31, 2012	$ 0.12	7,684,726	4,606,238	3.27
Granted	0.10	3,577,742		
Cancelled	0.10	(60,000)		
Forfeited	0.10	(1,054,468)		
Expired	0.28	(595,000)		
Balance at December 31, 2012	$ 0.10	9,553,000	3,885,513	3.58
Expired	0.14	(100,000)		
Balance at March 31, 2013	**$ 0.10**	**9,453,000**	**4,606,238**	**3.37**

For the three months ended March 31, 2013, the fair value of the options granted was $Nil (March 31, 2012 - $Nil).

(Expressed in Canadian dollars)

9. Share-Based Payments (continued)

The Company had the following stock options outstanding at March 31, 2013:

Number of options	Number of non-vested options	Number of vested options	Exercise price	Expiry date
250,000	-	250,000	$0.22	April 18, 2013
360,000	-	360,000	$0.10	November 19, 2013
25,000	-	25,000	$0.10	August 19, 2014
450,000	-	450,000	$0.11	November 18, 2014
400,000	-	400,000	$0.10	April 20, 2015
1,000,000	666,667	333,333	$0.10	August 23, 2015
1,480,000	850,000	630,000	$0.10	February 11, 2016
1,910,258	-	1,910,258	$0.10	August 18, 2016
600,000	600,000	-	$0.10	December 13, 2017
2,768,281	2,768,281	-	$0.10	December 20, 2017
209,461	209,461	-	$0.10	December 21, 2017
9,453,000	5,094,409	4,358,591	$0.11	

The estimated fair value of the options is expensed over the vesting period. The fair value of the compensation and contributed surplus relating to the stock options for the three months ended March 31, 2013 was $132,482 (March 31, 2012 - $33,852). The fair value of all the Company's stock options was estimated using the Black-Scholes option pricing model.

10. Warrants

The Company had issued warrants to acquire common shares as follows:

	Number of warrants	Amount	Weighted average exercise price
Balance at January 1, 2012	33,379,000	$ 873,455	$ 0.10
Warrants expired	(27,908,000)	(628,830)	0.10
Balance at March 31, 2012	5,471,000	$ 244,625	$ 0.10
Warrants issued	32,597,652	741,449	0.10
Bonus warrants (note 6)	3,600,000	154,437	0.10
Warrants expired	(2,055,000)	(79,960)	0.10
Balance at December 31, 2012	39,613,652	$ 1,060,551	$ 0.10
Warrants expired	(600,000)	(33,876)	0.10
Balance at March 31, 2013	**39,013,652**	**$ 1,026,675**	**$ 0.10**

(Expressed in Canadian dollars)

10. Warrants (continued)

The Company had the following warrants outstanding and exercisable at March 31, 2013:

Number of warrants		Exercise price	Expiry date
750,000	(i)	$0.10	August 24,2014
2,066,000	(ii)	$0.10	June 23, 2013
6,875,652	(iii)	$0.10	September 7, 2015
18,500,000	(iv)	$0.10	October 3, 2015
738,000	(v)	$0.10	October 3, 2014
6,300,000	(vi)	$0.10	December 13, 2015
184,000	(vii)	$0.10	December 13, 2014
3,600,000	(viii)	$0.10	October 3, 2015
39,013,652			

(i) These warrants were issued for services related to digital media workflow solutions. The warrants became exercisable after various phases of digital media workflow solution were completed.

(ii) These warrants were issued to agents in connection with the issuance of debentures. The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 121%; (III) a risk free rate of 1.45%; and (IV) an expected life of 2 years.

(iii) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 119%; (III) a risk free rate of 1.25%; and (IV) an expected life of 3 years.

(iv) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 116%; (III) a risk free rate of 1.14%; and (IV) an expected life of 3 years.

(v) These warrants were issued to agents in connection with the issuance of the private placement (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 115%; (III) a risk free interest rate of 1.08% and (IV) an expected life of 2 years.

(vi) These warrants were issued as part of the private placement of units (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 114%; (III) a risk free rate of 1.19%; and (IV) an expected life of 3 years.

(Expressed in Canadian dollars)

10. Warrants (continued)

(vii) These warrants were issued to agents in connection with the issuance of the private placement (note 7). The fair value of the warrants issued were estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions: (I) dividend yield of 0%; (II) expected volatility of 118%; (III) a risk free interest rate of 1.12% and (IV) an expected life of 2 years.

(viii) These warrants were issued in connection with the amendments to the debentures. The Company issued 3,600,000 bonus warrants to the holders of the debentures. See note 6.

Warrants issued to agents and related to financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable.

11. Loss per Share

	March 31 2013	March 31 2012
Numerator:		
Net loss and comprehensive loss for the period	**$ (544,772)**	$ (670,609)
Denominator:		
Weighted average number of common shares	**163,244,771**	131,569,119
Basic and diluted loss per share	**$ (0.003)**	$ (0.005)

For the above-mentioned periods, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of dilutive net loss per share in the periods presented, as their effect would have been anti-dilutive. Such outstanding securities consist of the following:

	March 31 2013	March 31 2012
Options	**9,453,000**	7,684,726
Warrants	**39,013,652**	5,471,000

(Expressed in Canadian dollars)

12. Commitments and Contingencies

(a) Technology license agreement

Pursuant to a licensing agreement dated June 28, 2007, the Company was granted a non-exclusive license to integrate a patented biometric technology (the "Intellectual Property") with their DMDS. The initial term of the License is for six years, automatically renewing for successive terms of one year after the initial five-year term and may be terminated by either party upon 180 days notice prior to the renewal date of the agreement. The Company must pay an additional annual maintenance fee based on the number of annual users, which at the Company's current usage results in a fee of $5,400 per year.

(b) Litigation

On November 14, 2000, the Company filed a claim against a former employee and shareholder, and related shareholders, seeking a rescission of their 1,250,000 common shares and damages in the amount of $100,000. A counterclaim was brought against the Company by these defendants for various relief including damages of approximately $850,000, a declaration that the defendants are shareholders and orders that they be bought out or the Company be wound up.

In May 2001, the Company successfully defeated a motion by the defendants that sought condensed interim costs and security for costs. The Company was awarded its costs for this motion. The Company continues to defend the action. The amount cannot be estimated reliably, therefore no provision is recorded.

(c) Leases

Total future annual lease payments for the premises are as follows:

2013	$	63,371
2014		84,495
2015		84,495
2016		84,495
2017		63,371
	$	380,227

13. Capital Risk Management

The Company includes equity; comprised of share capital, warrant capital, contributed surplus, and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further develop and market its digital media distribution systems, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three months ended March 31, 2013.